



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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October 16, 2001

TO: All Agencies
Statewide Elected Officials
Institutions of Higher Education

FROM: Marty Brown, Director 

**SUBJECT: GENERAL FUND – STATE (GF-S) SUPPLEMENTAL BUDGET
REDUCTIONS FOR OCTOBER 30, 2001**

The purpose of this letter is to outline the information that the Governor and Office of Financial Management (OFM) need from you as we start building the Governor's supplemental 2002 budget proposal to address our long-term budget challenge. It also sets forth the principles the Governor will follow as we prepare his proposal to bring the budget back into balance.

Revenue Projections Likely Will Decline

National economic trends, recent announcements of aerospace layoffs, and the potential for growing uncertainty about consumer confidence, make it likely that there will be a reduction in the state General Fund revenue forecast in November. As a result, the Governor needs state agencies to find expenditures that can be reduced or eliminated.

The potential for a serious revenue problem confronts the state of Washington and we need to take steps now to be prepared. While we realize that these steps will be difficult, we are trying to minimize the disruption of critical state services – not just in the current biennium, but in the next as well.

Even before any revenue changes, there are at least \$300 million of additional spending pressures on the 2001-03 budget that cannot be covered without substantially depleting reserves. And, that's before we take into consideration the effect of the Sept. 11 terrorist attacks and Boeing layoff notice on the Nov. 20 revenue forecast. *The potential* for a deficit as large as \$1 billion for the 2001-03 Biennium is not purely speculative, and a budget problem of that magnitude is possible.

The outlook for the 2003-05 Biennium does not appear much better. Based on current levels of service, it is reasonable to expect a gap between spending and revenue. It is all clear that our present level of services and expenditures exceeds the estimated revenue to pay for them.

If Revenue Projections Drop, We Will Need to Rebalance the 2001-03 Budget

To bring the budget back into balance, we must: know what our priorities are; be clear about the reasons for choices; consider both the short-term and long-term impacts to other parts of state government, and to citizens and organizations outside state government; and be accountable for our decisions and recommendations. Additionally, each agency should look for reductions that not only address current problems, but those in future biennia as well.

In cooperation with you, the Governor is looking for budget solutions – within current revenue. Governor Locke has made it clear that he will not propose any general tax increase to address the General Fund problem, although he will continue to support a gas tax increase to make long-term transportation improvements.

Focus on Keeping Your Most Important Services

As you reprioritize your services, focus on maintaining quality services, core programs, and cost-effective, consumer-oriented services. Please know that the Governor will neither recommend nor accept across-the-board cuts. Consider flattening your organization structures. Assess and eliminate or consolidate overlapping and under-performing activities – without jeopardizing the rest of your agency's mission.

This approach is necessary now, but also takes an important step toward restructuring state government in order to provide government functions that will need to be sustained in the 2003-05 Biennium.

Work with these Principles When Preparing Your Recommendations

Define your most important, central missions – Agencies must prioritize services to support core missions. Cuts are to be recommended by agencies for consideration by the Governor on a program-by-program basis to eliminate non-essential services while retaining the quality and reliability of vital services.

Minimize Impact on Quality of Life – Prioritize reductions so that Washington's economic, social, and environmental quality of life is sustained. Factor in to your decisions the impact that budget reductions may have on citizens, local governments, and private and non-profit institutions.

Maintain the Safety Net – Maintain services that protect the state's most at-risk and vulnerable population, so that communities and individuals who have the least access to resources and services can be assured that the state will continue to provide them with an effective level of support and the assistance they need.

Maintain Performance Standards – All programs that the state chooses to continue must meet clear benchmarks and performance standards, so that quality services are maintained.

Following these principles, OFM is asking agencies to reassess their existing GF-S budgets and take the following actions:

All Agencies with General Fund Support

- Examine your operations for any activities that can be streamlined, postponed, or eliminated – such as new programs not yet implemented – prior to legislative action on a 2002 supplemental budget.
- Please limit hiring to fill new positions and carefully examine your need to fill vacancies in existing positions. Carefully examine whether new equipment purchases can be deferred, or travel can be limited.
- Consider alternatives like fees, privatization, or shifting funds among different agency activities to achieve GF-S savings. Any reductions that involve revolving fund charges, or programs shared with other agencies, should be discussed with affected agencies.
- Prepare to respond to questions from OFM budget analysts and the Governor's policy staff about alternative approaches to reprioritizing and reducing state services.

For Large General Fund Agencies Only

Efficiencies clearly will not be enough to address the revenue problems and budget constraints we likely will face in the current biennium and beyond. Therefore, we need bigger agencies to meet specific budget reduction targets.

The Department of Social and Health Services, Department of Corrections, Office of Community Development, Office of Trade and Economic Development, Department of Health, Department of Ecology, and Department of Fish and Wildlife are required to:

Provide to OFM by October 30 budget adjustments to the existing 2001-03 budget that represent both one-time reductions and any program reductions or eliminations that are possible for the remainder of the current biennium. We expect that these reductions will affect both years of the biennium, but the combined cost savings should represent at least 15 percent of the Fiscal Year 2003 GF-S appropriation. Dollar amounts are displayed in the spreadsheet below.

2001-03 General Fund State 15% Reduction Targets (Calculation Based on FY 2003; GF-S Dollars in Thousands)			
	Enacted Budget GF-State		GFS Cut Target of 15%
	FY 2002	FY 2003	
Department of Social and Health Services	3,023,418	3,159,063	(473,859)
Department of Health	65,308	66,941	(10,041)
Department of Corrections	514,013	525,575	(78,836)
Department of Ecology	46,633	44,481	(6,672)
Department of Fish and Wildlife	51,600	50,762	(7,614)
Community, Trade, and Economic Development	71,084	70,873	(10,631)
	3,772,056	3,917,695	(587,654)

- Be prepared to identify and describe those agency activities that represent core functions that will continue to exist after proposed 15 percent budget reductions. The submittal date for this narrative is expected to be November 15.
- Focus on the need to provide and adequately support critical services, especially those that protect public safety and the most vulnerable citizens in the state's care. In this process, evaluate programs and activities – paying particular attention to their importance to your agency's strategic plans – and strive for recommended reductions that eliminate whole programs rather than make incremental cuts.

When you have identified your reduction options, please transmit them to OFM via the Budget Development System (BDS) and summarize them in a memo listing the major program changes along with a description of how these options integrate with overall agency strategies.

We understand the challenge that these actions represent. We will make every effort to keep agencies involved in the budget process as it unfolds during the next two months.

Please direct any questions you have to me or to your assigned OFM budget analyst.